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CORPORATION FILE

NATIONAL TOOL COMPANY

Cleveland Ohio

51st annual report

1955

DIRECTORS

HARRY W. BARKLEY - - - - - - - - Cleveland, Ohio
President, National Tool Company

JOHN A. BRADNER - - - - - - - - - Cleveland, Ohio
President, The Lees-Bradner Company

GEORGE O. DESAUTELS - - - - - - - Indianapolis, Indiana
President, George O. Desautels Company

LEWIS F. JUBENVILLE - - - - - - Orchard Lake, Michigan
Secretary, Executive Committee

J. VICTOR LOEWI - - - - - - - - - Milwaukee, Wisconsin
President, Loewi & Company

JOHN S. PEARSON - - - - - - - - - New York City
Dobbs & Company

RICHARD F. STEVENS - - - - - - - - Cleveland, Ohio
Partner, Baker Hostetler & Patterson

EXECUTIVE COMMITTEE

HARRY W. BARKLEY, chairman

L. F. JUBENVILLE, secretary

J. VICTOR LOEWI

OFFICERS

HARRY W. BARKLEY - - - - President and General Manager

RAY D. LINDSTROM - - - - - Vice President, Manufacturing

ARTHUR T. WEST - - - - - - - - Secretary and Treasurer

LEWIS M. SHAFER - - - Assistant Secretary and Assistant Treasurer

REGISTRAR OF STOCK THE NATIONAL CITY BANK OF CLEVELAND

TRANSFER AGENT OF STOCK THE NATIONAL CITY BANK OF CLEVELAND

INDEPENDENT AUDITORS HASKINS & SELLS

The Annual Meeting of Stockholders will be held on April 24, 1956. Notice of the Meeting and Proxy Form will be mailed to each holder of Common Stock on or about April 2, 1956.

TO THE STOCKHOLDERS AND EMPLOYEES OF NATIONAL TOOL COMPANY

Net sales in 1955 were $4,078,175. Sales of Special Cutting Tools—the Company's principal product—were 14 percent higher than in 1954, and were the highest in the Corporation's history with the exception of the Korean period. Total 1954 sales of $4,160,789 included non-repetitive subcontract work.

Net income was $121,353 compared with net income for 1954 of $120,087. Each year's income was equivalent to 48 cents per share based on the 251,732 shares now outstanding. The Company operated under an unfavorable price structure during much of 1955. Late in the year it began to realize the benefits from price increases instituted on most of its products. In spite of the fact that earnings during the first nine months of 1955 were forty-nine per cent below those for the same period in 1954, the year ended with total 1955 earnings slightly in excess of 1954. Price increases were announced on some classes of tools in January, 1956. This should affect profits later this year when the backlog on these tools is converted to sales.

Cash dividends totaling 25 cents per share were paid during the first half of the year, and stock dividends in the aggregate of 5 percent were paid during the last half of the year. In accordance with the resolution adopted by the stockholders at their last meeting, the Directors have granted the writer a stock option on 10,000 shares of unissued common stock under the terms outlined in Note 1 on the Balance Sheet.

The financial position was again improved during the year. Working capital at December 31 was $1,316,106, and the ratio of current assets to current liabilities was 4.30 to 1. The ratio at the end of 1954 was 3.48 to 1. Late in 1955 the Company took advantage of the $600,000 available under its five-year term loan agreement. The loan is repayable in quarter-annual installments of $30,000 each beginning March 31, 1956. The proceeds of the loan will be used to manufacture and acquire additional improved production equipment needed to satisfy a constantly increasing demand for some classes of special cutting tools. Approximately $400,000 of the proceeds of the term loan were invested temporarily in a lump sum purchase of steel — the Company's principal raw material—ahead of a substantial steel price increase. As all this steel is expected to be used in 1956, the savings should be realized this year. The balance of the loan was invested in short term Government securities. In addition to the term loan, two banks have extended an open line of credit considered ample for working capital needs.

National Tool Company was successful during the latter part of 1955 in negotiating an exclusive license permitting it to manufacture and sell a new type of gear processing tool. This tool employs a new art in metalworking and should add considerably to sales volume in the future.

Cutting tools have long been recognized as vital to industry. Most machine tools cannot be used without metal-cutting tools. During the Korean War, production of cutting tools was given one of the highest priorities, and during the World War II period, the highest priority. This exemplifies National Tool Company's important position in industry and indicates a rising sales volume as metalworking capacity continues to expand under the impetus of economic growth. There is a noticeable increase in the use of automation in industry. Automation usually requires the employment of special purpose machine tools which in turn use more Special Cutting Tools—the Company's principal product.

During the year National Tool Company again improved its position within the cutting tool industry. Fifty-one years of engineering and manufacturing experience, a nation-wide sales organization, and a program of continually improving manufacturing methods have increased the Company's standing to where it is now the largest organization in the country devoting its entire facilities to the production of Special Cutting Tools.

The backlog of unfilled orders at December 31, 1955 was 19% greater than at the end of 1954. New orders are currently being received at a higher rate than at this time last year. Sales during the first two months of 1956 were 21% greater than in the same period in 1955. Management is glad to express its appreciation for the loyalty and cooperation of its employees who are helping to make these results possible.

For the Board of Directors,
HARRY W. BARKLEY
President

March 6, 1956

NATIONAL TO

BALANC

DECEMBER 31,

ASSETS

	. . . DECEMBER 31 . . . 1955	1954
CURRENT ASSETS:		
Cash	$ 320,935	$ 352,501
U. S. Treasury Certificates, at cost plus accrued interest (less amount applied in reduction of Federal taxes on income)	91,113	
Accounts receivable:		
Trade (less reserve of $14,873 for doubtful accounts)	409,540	333,009
Other	12,865	5,130
Inventories—at lower of cost or market:		
Finished and in-process products	354,829	269,619
Raw materials and supplies	525,910	209,925
Total current assets	$1,715,192	$1,170,184
MUTUAL INSURANCE DEPOSITS (NET) AND OTHER NON-CURRENT RECEIVABLES	$ 21,926	$ 20,056
PROPERTY, PLANT, AND EQUIPMENT—At cost:		
Land	$ 39,104	$ 39,104
Buildings	388,577	307,379
Machinery and equipment	1,223,676	1,138,548
Total	$1,651,357	$1,485,031
Less reserve for depreciation and amortization	1,014,786	922,288
Property, plant, and equipment—net	$ 636,571	$ 562,743
DEFERRED CHARGES	$ 82,675	$ 73,871
TOTAL	$2,456,364	$1,826,854

NOTES TO FINAN

1. Ten thousand shares of unissued capital stock of the Company are subject to a purchase option by an officer of the Company until December 5, 1961, at a price of $4.55 a share, exercisable one-half on February 15, 1956 and in full on February 15, 1957.

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E SHEET

1955 AND 1954

LIABILITIES

	. . . DECEMBER 31 . . . 1955	1954
CURRENT LIABILITIES:		
Current portion of notes payable to banks	$ 120,000	
Accounts payable:		
Trade	105,887	$ 53,798
Other	29,515	28,411
Accruals:		
Federal taxes on income ($109,644 at December 31, 1955 offset by U. S. Treasury Certificates)		120,723
Other taxes	12,123	11,832
Salaries, wages, and commissions	124,944	113,026
Miscellaneous	6,617	8,248
Total current liabilities	$ 399,086	$ 336,038
NOTES PAYABLE TO BANKS, 4%, maturing $30,000 quarterly (less current portion)	$ 480,000	
CAPITAL INVESTMENT AND EARNINGS RETAINED FOR USE IN THE BUSINESS:		
Common capital stock, authorized 600,000 shares of $1 par value each; issued and outstanding, 251,732 shares (Note 1)	$ 251,732	$ 234,594
Excess of paid-in capital over amount assigned to capital stock (increased during the year by $56,728 excess of market value over par value of stock dividends, and $20,000 premium on stock sold)	228,644	151,916
Earnings retained for use in the business (Note 2)	1,096,902	1,104,306
Total capital investment, etc.	$1,577,278	$1,490,816
TOTAL	$2,456,364	$1,826,854

CIAL STATEMENTS

2. Under the terms of the agreement relating to the notes payable to banks, dividends or other distributions to stockholders are restricted. At December 31, 1955, $125,866 of earnings retained for use in the business was available for distribution in 1956.

NATIONAL TOOL COMPANY

STATEMENT OF INCOME AND EARNINGS RETAINED FOR USE IN THE BUSINESS

For the Years Ended December 31, 1955 and 1954

	YEAR ENDED DEC. 31 1955	1954
SALES AND OTHER INCOME:		
Net sales	$4,078,175	$4,160,789
Other income	5,929	126
Total	$4,084,104	$4,160,915
LESS:		
Cost of goods sold (including depreciation and amortization of $110,345 for 1955; $96,500 for 1954)	$3,167,459	$3,284,408
Selling, general, and administrative expenses	669,541	625,275
Interest and debt expense	7,073	9,645
Total	$3,844,073	$3,919,328
INCOME BEFORE PROVISION FOR FEDERAL TAXES ON INCOME	$ 240,031	$ 241,587
PROVISION FOR FEDERAL TAXES ON INCOME	118,678	121,500
NET INCOME	$ 121,353	$ 120,087
EARNINGS RETAINED FOR USE IN THE BUSINESS, JANUARY 1	1,104,306	1,101,519
Total	$1,225,659	$1,221,606
DIVIDENDS PAID:		
In common stock, 5%, at market value	$ 68,856	
Cash	59,901	$ 117,300
Total	$ 128,757	$ 117,300
EARNINGS RETAINED FOR USE IN THE BUSINESS, DECEMBER 31 (Note 2)	$1,096,902	$1,104,306

The Notes on the Balance Sheet are an integral part of this Statement.

HASKINS & SELLS
CERTIFIED PUBLIC ACCOUNTANTS

WILLIAMSON BUILDING
CLEVELAND, 14

ACCOUNTANTS' CERTIFICATE

National Tool Company:

We have examined the balance sheet of National Tool Company as of December 31, 1955 and the related statement of income and earnings retained for use in the business for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statement of income and earnings retained for use in the business present fairly the financial position of the Company at December 31, 1955 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

HASKINS & SELLS

February 24, 1956.

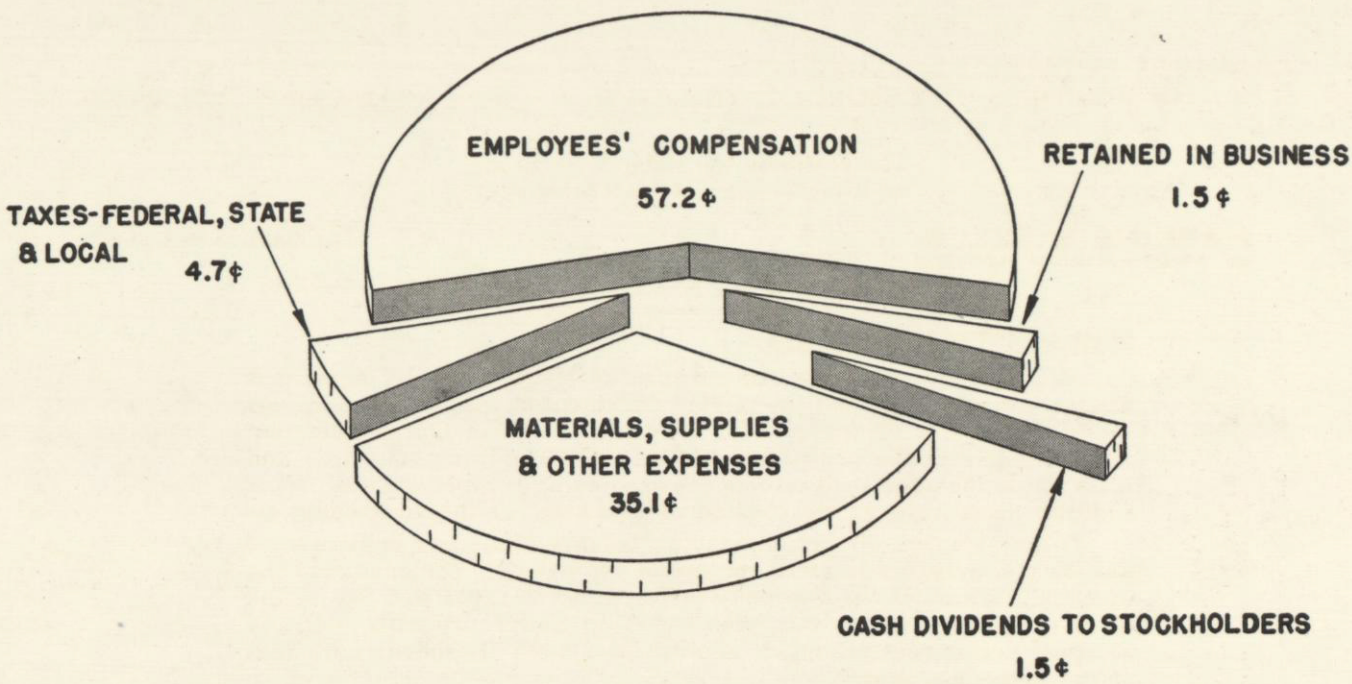
NATIONAL TOOL COMPANY

Ten Year Statistical Record

Year Ended Dec. 31	Net Sales	Net Profit For the Year	Net Profit Per Share	Cash Dividend Per Share of Common Stock	Working Capital	Net Worth	Net Worth Per Share of Common Stock
1946	2,056,876	75,785	.33	15¢	393,808	952,211	4.15
1947	2,797,271	97,240	.42	15¢	401,309	1,015,087	4.42
1948	2,735,617	110,154	.48	15¢	456,444	1,090,802	4.75
1949	2,377,964	95,361	.41	20¢	763,053	1,140,245	4.97
1950	3,137,290	168,860	.75	30¢	774,165	1,221,904	5.32
1951	6,113,278	248,661	1.08	50¢	901,519	1,376,107	5.99
1952	5,446,721	151,231	.65	50¢	928,128	1,427,038	6.11
1953	5,412,018	173,787	.74	50¢	998,235	1,488,026	6.34
1954	4,160,789	120,087	.51	50¢	834,146	1,490,816	6.35
1955	4,078,175	121,353	*.48	25¢ Cash — 5% Stock	1,316,106	1,577,278	*6.27

*Calculated on number of shares outstanding on December 31, 1955

BREAKDOWN OF 1955 SALES DOLLAR



NATIONAL TOOL COMPANY

CLEVELAND OHIO